

AR49



SCOTT PAPER LIMITED

1970

ANNUAL REPORT

SCOTT PAPER LIMITED

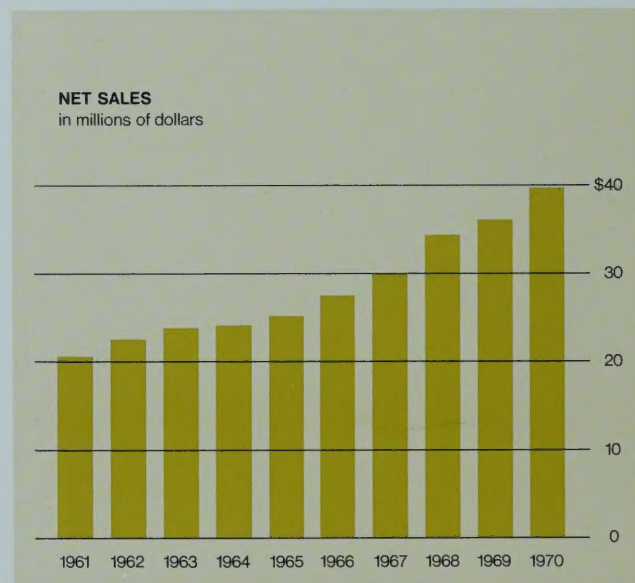
Head office / New Westminster, British Columbia

Plants / New Westminster and Surrey, British Columbia and Crabtree, Quebec

Sales offices / Vancouver, Winnipeg, Toronto, Montreal and Dartmouth, Nova Scotia

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Scott Paper Limited's Consolidated Net Sales increased 11% to a new record high in 1970, despite a sharp slow-down in the overall rate of growth of the Canadian market.

Ce rapport annuel est publié en français et en anglais.
Si vous désirez en obtenir un exemplaire additionnel,
prière d'aviser le Secrétaire.

Financial summary

	1970	11% 1969
Net sales.....	<u>\$39,761,768</u>	<u>\$35,789,027</u>
Income before taxes.....	3,183,403	3,268,117
Income taxes.....	1,600,000	1,700,000
Income after taxes.....	<u>1,583,403</u>	<u>1,568,117</u>
Depreciation.....	1,425,751	1,312,089
Interest expense.....	448,270	333,647
Capital expenditures.....	6,701,372	4,797,470
Income reinvested in the business.....	863,403	848,117
Dividends.....	720,000	720,000

PER SHARE

Income before taxes.....	\$3.98	\$4.09
Income after taxes.....	<u>1.98</u>	<u>1.96</u>
Cash flow.....	4.75	3.89
Dividends paid.....	.90	.90
Shareholders' interest.....	24.83	23.75
Number of shares outstanding at year end.....	800,000	800,000

In both Eastern and Western Manufacturing Divisions, men take their Company responsibilities seriously, and know how to enjoy weekend time with their families, as well.

TOP: Paul Emile Venne, here tending the fire, has more than 30 years' experience in the Crabtree, Quebec manufacturing operation. On this weekend snowmobile trip are Mrs. Venne, son Gilles, "Charlie" Venne, daughter Pauline, and son Michel.

BOTTOM: Hugh England, with more than 20 years' service in the New Westminster plant, views a colourful campus mural during a tour of nearby Simon Fraser University, where son Robert is a first-year student. With Hugh are wife Mary, daughter Ann, and sons Stephen and Robert.

TO SHAREHOLDERS AND EMPLOYEES:

GENERAL COMMENT

In 1970 the company's sales and earnings per share reached new record highs. Consolidated net sales increased 11% over 1969, to reach \$39,762,000. Net earnings amounted to \$1,583,000, or \$1.98 per common share — up 1% from the previous year.

In common with others in industry, Scott Paper Limited fulfilled its commitment to the Federal Government's Prices and Income Commission's criteria to hold down price levels during 1970. However, costs escalated at an inflationary rate throughout the year and offset most of the productivity gains achieved in marketing, distribution and manufacturing operations. With costs rising rapidly and net selling prices unchanged, both the return on sales and assets employed dropped in 1970 compared to 1969.

1970 saw the virtual completion of our \$10 million expansion programme in the Eastern Manufacturing Division at Crabtree, Quebec. We have recently received a letter of appreciation from Prime Minister Bourassa of Quebec, acknowledging this important new addition to the company's already large investment in that province.

The expanded Crabtree facilities not only provide a 45% increase in papermaking capacity in eastern Canada but include new modern converting and distribution facilities, as well as equipment for the development and production of new and improved product lines.

At year end a decision was made to expand the warehousing and distribution centre of the Western Division at New Westminster, British Columbia. Work on this project is already under way. The new facilities, when completed in 1971, will lower distribution costs in western Canada and increase our ability to provide fast and efficient service for customers and distributors in British Columbia, the three Prairie provinces and in other countries to which we export semi-finished papers.

Perhaps the most positive factor in the past year was the continued high level of employee enthusiasm and efficiency, which has long been a vital factor in the company's operations. Since the company's founding in 1922, no Scott employee has lost time or pay from an "in company" industrial dispute and very little time or pay from lack of sales volume. This

unique record speaks highly for the personal involvement of our people and their individual attention to their responsibilities and work assignments in the company, as well as for the company's steady sales growth shown in chart form elsewhere in this report.

During the year, agreements were negotiated and signed with the three unions representing Scott people in the Eastern and Western Divisions. These contracts run for 2- to 3-year periods from mid-1970.

FINANCIAL

Pre-tax earnings for 1970 of \$3,183,403 were down slightly from the \$3,268,117 earned in 1969. However, a reduction in the company's income tax rate resulted in after-tax earnings for 1970 of \$1,583,403, or \$1.98 per common share, compared with \$1,568,117, or \$1.96 per common share earned in 1969.

Following the practice of former years, income taxes are reported on a "deferred tax" basis. For the year 1970, the provision for current taxes payable amounted to \$810,000. The reserve for deferred taxes amounted to \$790,000. The accumulated total of the company's reserve for deferred taxes now amounts to \$980,000. The effective income tax rate for the year just ended was 50.26% compared with 52.02% in 1969. The decrease in the effective tax rate for 1970 was due in part to the amendments of the Quebec Corporation Tax Act, designed to stimulate industrial development in that province.

Dividends were paid in 1970 at the rate of \$.90 per common share, marking the 40th consecutive year in which the company has paid dividends to shareholders.

Total capital expenditures for 1970 amounted to \$6,701,372, the bulk of which was spent on the new facilities at Crabtree, Quebec. Of the capital allocations, \$2,800,000 came from an increase in long-term bank loans, with the balance from generated cash flow which has resulted in a temporary reduction in working capital. At the end of 1970, long-term bank loans totalled \$6,100,000, repayable in varying amounts from 1972 through 1975. Capital expenditures planned for 1971 are expected to total less than half the amount invested in 1970.

MARKETING AND SALES

The past year saw a sharp reduction in the rates of growth normally experienced in Canada for consumer and industrial purchases of sanitary and convenience



First, know the market . . . through research Scott's marketing people maintain continuing studies to delineate areas of potential in the consumer and industrial markets.

Second, meet the need with a better product . . . with objectives defined, manufacturing and research groups work closely to develop both the product's qualities and the production techniques required.

Prototypes are made to allow product testing in actual use. Findings from consumer questionnaires are analyzed to determine acceptability of the proposed product.

Specifications are now firmly outlined, and to ensure continuing satisfaction, Scott's Consumer Representative supervises quality control throughout manufacture.

A new product from Scott . . . the company's respected name will help make the first sale; the product's own superior blend of characteristics will take it from there.

paper products. However, the growing consumer demand for the newer Scott product lines, plus larger export and fine paper sales, combined to push the company's overall volume to a new high record and an increase of 11% over 1969.

Viva Bathroom Tissue, previously available only in Quebec, was introduced into Ontario, accompanied by an encouraging rate of consumer acceptance. Sales of our new paper-plastic combination X-ray gowns, sheets, pillow cases and restaurant aprons, manufactured by our subsidiary, Westminster Paper Company, showed gains over the previous year. Consumer purchases of products introduced or improved in the years just prior to 1970 increased substantially in volume. All of these factors helped maintain our diversified marketing effort in the Canadian and export markets.

New training aids and "in company" seminars maintained and strengthened our highly competent marketing and sales organization, so that, together with the strong support of customers, distributors and suppliers, we have a most valuable team for the accomplishment of future sales growth on established products and the development of new product lines.

MANUFACTURING

1970 was a year characterized by difficult operating conditions in both the Eastern and Western Manufacturing Divisions. Strikes and work stoppages in mills of our chemical pulp suppliers resulted in temporary large increases in prices paid for this major raw material and in operating costs. A prolonged tow boat strike on the West Coast had an unfavourable effect on our pulp-making operations in British Columbia and on our costs at that location.

The dedication and skills of our manufacturing personnel overcame many of the difficulties arising in areas within the company's control, and at all manufacturing plants operating efficiencies remained at high levels during most of the year.

1970 saw work virtually finished on the new No. 4 papermaking machine at Crabtree, Quebec as well as the expanded converting and steam plant facilities there. The distribution and warehousing facilities serving eastern Canada were expanded by the completion of a 40,000-square-foot building. In addition, a number

of machine and technical improvements were made at the Westminster Paper Company's plant in Surrey, B.C. The engineering and design work was completed on a new machine for the manufacture of paper-plastic laminate convenience products. This new machine will go into production during the first half of 1971.

At all manufacturing locations work continued on our programme for improving and protecting the environment. Currently, both divisions are operating well within applicable federal and provincial air and water standards. We are constantly making further improvements in our performance at all manufacturing locations as new technology and new methods are developed.

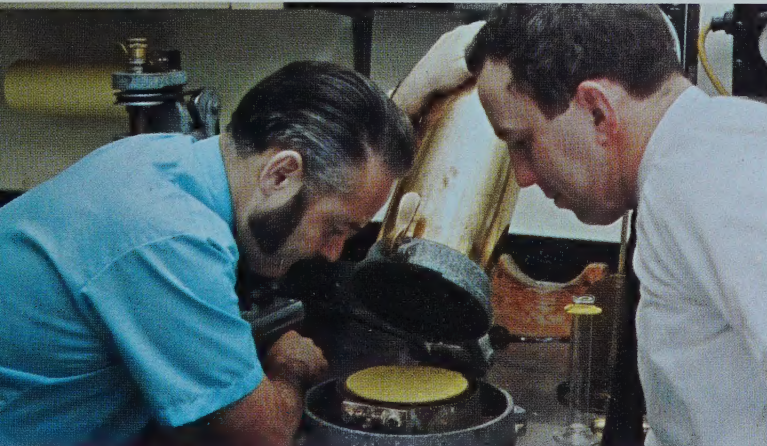
SCOTT PEOPLE

Over the past 15 years, sales increases have led to the creation of more than 200 new full-time jobs and positions in the company, as well as a broadening of responsibilities and the opening up of many new opportunities for Scott people. To ensure the continued personal development of people in all divisions, more intensive training programmes have been instituted as both automatic production equipment and marketing techniques become more complex.

The stability and skills of our 1,200-member employee group constitute the company's most significant asset. At the close of 1970, approximately 42% of our people had been with the company for at least 10 years; of these, 191, or 16% of all full-time employees, were members of the Scott 20-Year Club.

The past year also saw important changes in our basic package of employee benefits. Improved health and accident insurance programmes were instituted. The plan was broadened considerably to protect each of our people and their dependents in the event of long illness and convalescence. The company's retirement plan was improved and redrawn, providing among other benefits the opportunity for optional early retirement.

The personal safety of our people has always headed the list of priorities. In 1970, significant improvements were achieved in the safety records of both the Eastern and Western Manufacturing Divisions. At Crabtree, Quebec the frequency of accident occurrence was one of the lowest rates in the industry.



AT FAR RIGHT: Paper Machine Number 4 is now in production in the Eastern Manufacturing Division at Crabtree, Quebec, providing a 45% increase in that plant's capacity.

BELOW: Crabtree plant's new Paper Machine Number 4 is one of the fastest and most highly instrumented in North America.

AT RIGHT: The Western Manufacturing Division produces bleached mechanical pulp from fast-growing Western Cottonwood, much of which comes from nearby harvesting license operations.

BELOW: The Ouareau River, flowing past the plant on the left hand, with the Town of Crabtree in the background. Maintenance of air and water purity receives a high priority at Scott's manufacturing locations.

OUTLOOK

Looking to the future, we have installed sufficient manufacturing capacity to benefit from a return to normal growth in the consumer and industrial use rates for sanitary and convenience papers.

Research and development work on new products and product innovations, accelerated in 1970, will continue in 1971. When market and domestic economic conditions return to historic growth patterns, the company will be in a position to take advantage of many opportunities for further product diversification and the achievement of more profitable sales growth on established consumer and industrial packaged products.

As we enter 1971, little or no growth in the per capita demand for paper, high unemployment, general lack of consumer confidence, high corporate tax rates, continuing inflation in costs and prices — all constitute distinct threats to balanced growth for the short term. Meaningful and sound programs by governments, industry and business throughout Canada are sorely needed to help correct these problems, to create more jobs and to provide more incentive for expansion by both the exporting and domestic segments of Canadian industry. Within the company, continued restraint and control of all developmental and operating expenses will be required in 1971 to attain more satisfactory cost-price relationships and the profitability levels essential to sound long term growth.

Scott Paper Limited's management and people remain dedicated to producing the highest quality products to sell at the lowest possible prices, to the addition of new products, to expanding sales volumes of our present product lines, and to finding better means of increasing efficiencies and productivity throughout the company. We enter the current year stronger as a result of the company's 1970 performance. I am confident of our ability to increase both the sales volume and profitability of the company's operations when market and general economic conditions improve.

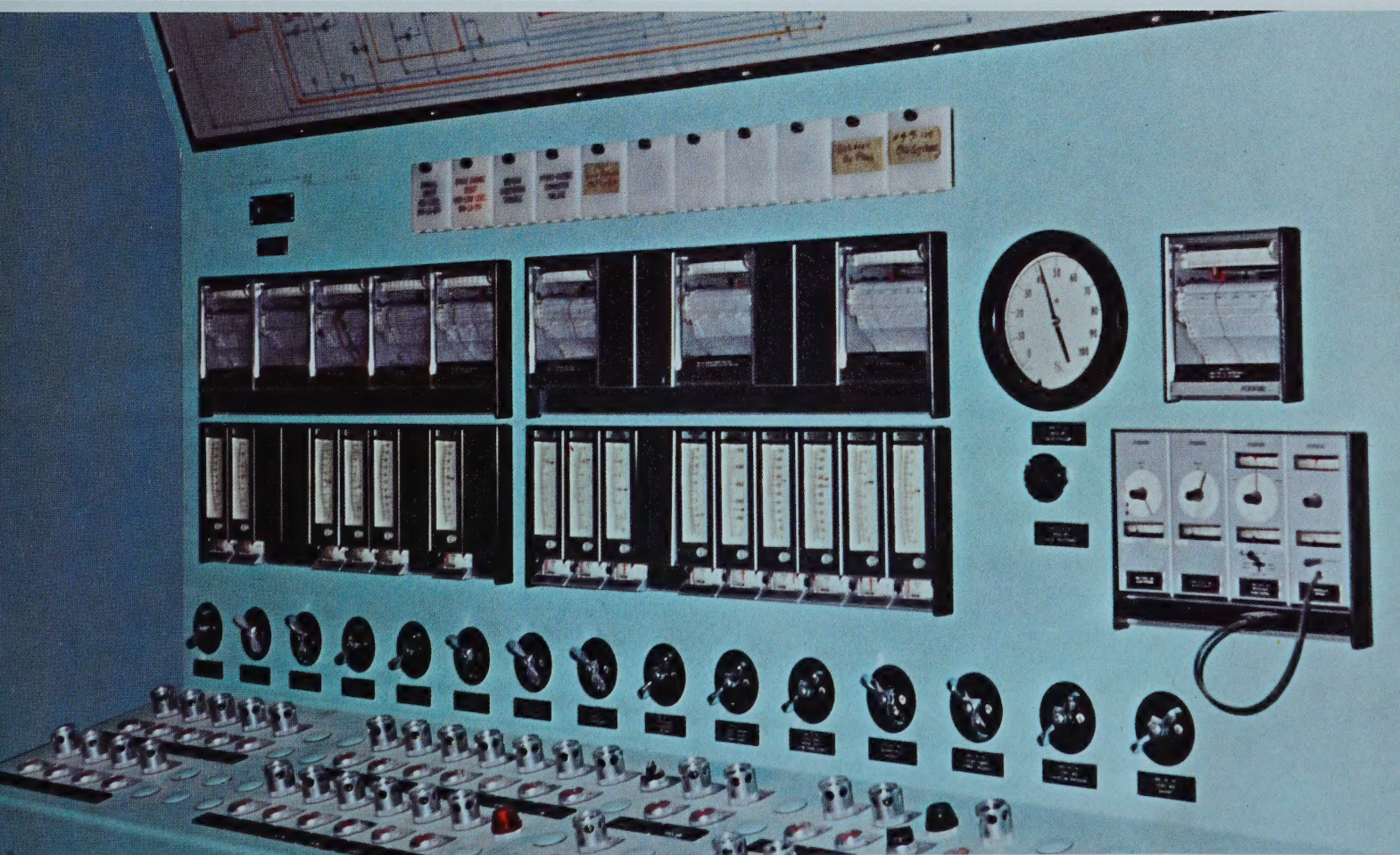
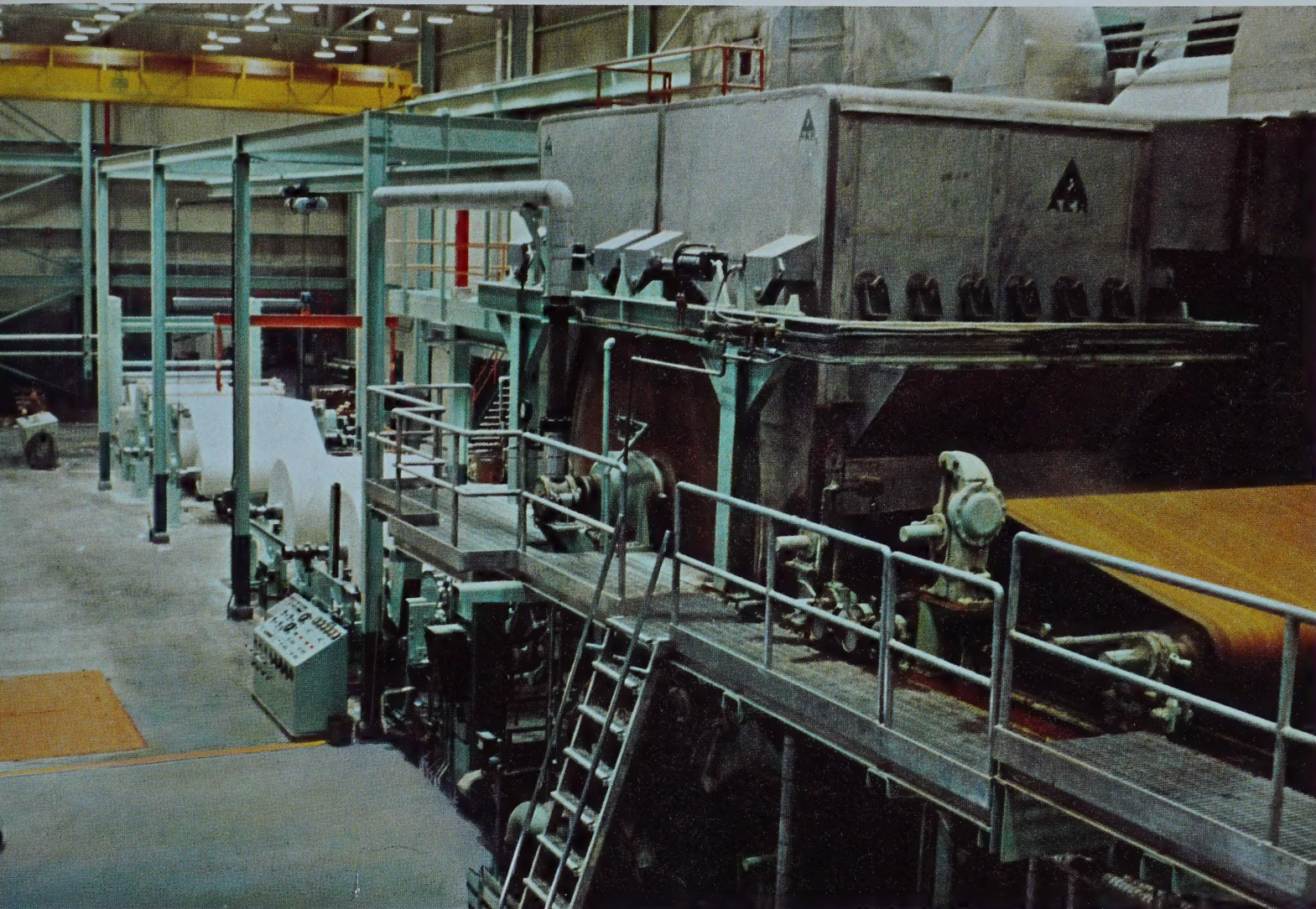
For the Board of Directors,



March 16, 1971.

A. F. Armstrong,
President.





**CONSOLIDATED STATEMENTS OF INCOME AND INCOME RETAINED IN THE BUSINESS
FOR THE YEAR ENDED DECEMBER 31 1970**

	1970	1969
<i>Income:</i>		
Sales, less allowances and after deducting		
Federal sales tax of \$3,928,894 (1969 — \$3,631,099).....	\$39,761,768	\$35,789,027
Expenses:		
Cost of products sold.....	26,450,238	23,193,550
Selling and distribution expenses.....	8,006,040	7,579,304
Administrative and general expenses.....	1,673,817	1,414,409
Interest expense (Note 3).....	448,270	333,647
	<u>36,578,365</u>	<u>32,520,910</u>
Income before deducting income taxes.....	3,183,403	3,268,117
Income taxes (Note 4):		
Current.....	810,000	1,510,000
Deferred.....	790,000	190,000
	<u>1,600,000</u>	<u>1,700,000</u>
Net income for the year.....	<u>\$ 1,583,403</u>	<u>\$ 1,568,117</u>
Net income per share.....	<u>\$1.98</u>	<u>\$1.96</u>
<i>Income retained:</i>		
Income retained in the business at the		
beginning of the year.....	\$12,403,580	\$11,555,463
Net income for the year.....	1,583,403	1,568,117
	<u>13,986,983</u>	<u>13,123,580</u>
Dividends — 90¢ per share.....	720,000	720,000
Income retained in the business at the end of the year.....	<u>\$13,266,983</u>	<u>\$12,403,580</u>

Note:

Expenses include depreciation (Note 4) of \$1,425,751 (1969 — \$1,312,089) and directors' fees and remuneration of officers who are also directors, of \$214,280 (1969 — \$199,018).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – DECEMBER 31 1970

	1970	1969
CURRENT ASSETS:		
Cash.....	\$ 21,700	\$ 22,120
Trade and other accounts receivable.....	3,135,340	2,902,617
Income taxes recoverable.....	215,663	—
Inventories (Note 1).....	7,666,505	7,409,485
Prepaid expenses.....	73,740	159,274
	<u>11,112,948</u>	<u>10,493,496</u>
CURRENT LIABILITIES:		
Short-term bank indebtedness — secured (Note 2).....	5,826,801	4,377,569
Accounts payable and accrued liabilities.....	4,195,335	4,166,525
Income taxes payable.....	—	40,522
	<u>10,022,136</u>	<u>8,584,616</u>
Working capital.....	<u>1,090,812</u>	<u>1,908,880</u>
<i>Add —</i>		
NON-CURRENT ASSETS:		
Fixed assets (Note 3).....	25,610,075	20,334,454
Miscellaneous assets.....	246,096	250,246
	<u>25,856,171</u>	<u>20,584,700</u>
<i>Deduct —</i>		
NON-CURRENT LIABILITIES:		
Bank loan — secured (Note 2).....	6,100,000	3,300,000
Deferred income taxes (Note 4).....	980,000	190,000
	<u>7,080,000</u>	<u>3,490,000</u>
Net assets.....	<u>\$19,866,983</u>	<u>\$19,003,580</u>
SHAREHOLDERS' INTEREST:		
Share capital (Note 5).....	\$ 6,600,000	\$ 6,600,000
Income retained in the business (Note 4).....	<u>13,266,983</u>	<u>12,403,580</u>
	<u>\$19,866,983</u>	<u>\$19,003,580</u>

APPROVED ON BEHALF OF THE BOARD:

Arthur F. Armstrong, *Director*.

H. Clark Bentall, *Director*.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31 1970**

	December 31	
	1970	1969
NOTE 1 — INVENTORIES:		
Finished products and work in process.....	\$ 4,519,253	\$ 4,690,580
Raw materials and supplies.....	3,147,252	2,718,905
	<u>\$ 7,666,505</u>	<u>\$ 7,409,485</u>

Inventories of finished products and work in process are valued at the lower of cost and market value determined on the basis of net realizable value. Raw materials and supplies are valued at cost which is not in excess of replacement cost.

NOTE 2 — BANK LOANS AND INDEBTEDNESS:

The non-current bank loan at December 31 1970 is repayable in varying amounts between 1972 and 1975. This bank loan, together with short-term bank indebtedness, is secured by a pledge of the company's accounts receivable and inventories.

	December 31	
	1970	1969
NOTE 3 — FIXED ASSETS:		
Land, at cost.....	\$ 426,154	\$ 379,052
Buildings, machinery and equipment, at cost.....	41,381,975	34,758,192
Less —		
Accumulated depreciation.....	16,198,054	14,802,790
Net book value of depreciable assets.....	<u>25,183,921</u>	<u>19,955,402</u>
	<u>\$25,610,075</u>	<u>\$20,334,454</u>

The major expansion undertaken during 1969 at the company's Eastern Manufacturing Division at a cost approximating \$9,000,000 was substantially completed by December 31 1970. To facilitate this expansion the company arranged additional financing with its bankers. During the construction period, the company capitalized interest costs amounting to approximately \$387,000 (\$322,000 in 1970 and \$65,000 in 1969).

NOTE 4 — INCOME TAXES AND DEPRECIATION:

Scott Paper Limited provides depreciation substantially on a straight-line basis at rates estimated to amortize the cost of the fixed assets over their useful lives. On January 1 1968 the company adopted for the future the tax allocation method of accounting for income taxes, whereby accumulated reductions of \$980,000 of income taxes otherwise payable since that date are carried forward in the financial statements as a credit to those future years where capital cost allowances available for income taxes fall short of depreciation provided in the financial statements.

Prior to January 1 1968 the company followed the policy of charging against earnings only income taxes actually payable after claiming maximum capital cost allowances available for income tax purposes on the fixed assets. Because capital cost allowances in previous financial years exceeded depreciation provided in the financial statements for those years, there are accumulated reductions in income taxes otherwise payable of approximately \$3,902,000 which have not been recorded as deferred income taxes.

NOTE 5 — SHARE CAPITAL:

The authorized share capital of Scott Paper Limited consists of 2,000,000 common shares without par value of which 800,000 are issued and outstanding.

Of the 1,200,000 unissued shares, 50,000 are reserved for options under the "Key Employees' Stock Option Plan". As at December 31 1970 options to purchase 9,250 shares are outstanding (but not yet exercised) at prices of \$30.62 and \$36.75 per share, valid for varying dates to 1974.

**CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF WORKING CAPITAL
FOR THE YEAR ENDED DECEMBER 31 1970**

	1970	1969
Source:		
Operations —		
Income for the year.....	\$ 1,583,403	\$ 1,568,117
Add —		
Charges which did not involve an outlay of working capital:		
Depreciation (Note 4).....	1,425,751	1,312,089
Deferred income taxes (Note 4).....	790,000	190,000
	<u>3,799,154</u>	<u>3,070,206</u>
Increase in long-term bank loan.....	2,800,000	2,600,000
Decrease in miscellaneous assets.....	4,150	10,000
Special refundable tax.....	—	32,487
	<u>6,603,304</u>	<u>5,712,693</u>
Disposition:		
Net additions to fixed assets (Note 3).....	6,701,372	4,797,470
Dividends.....	720,000	720,000
	<u>7,421,372</u>	<u>5,517,470</u>
(Decrease) increase in working capital during the year.....	(818,068)	195,223
Working capital at beginning of the year.....	<u>1,908,880</u>	<u>1,713,657</u>
Working capital at end of the year.....	<u>\$ 1,090,812</u>	<u>\$ 1,908,880</u>

AUDITORS' REPORT

PRICE WATERHOUSE & Co.
CHARTERED ACCOUNTANTS

1075 WEST GEORGIA STREET
VANCOUVER 5, B.C.

February 5 1971

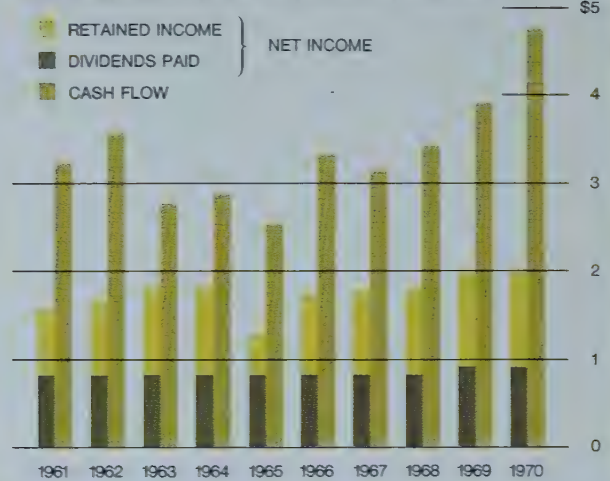
To the Shareholders, Scott Paper Limited:

We have examined the consolidated statement of financial position of Scott Paper Limited and its subsidiary company as at December 31 1970 and the consolidated statements of income and income retained in the business and source and disposition of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the consolidated financial position of the companies as at December 31 1970 and the results of their operations and the source and disposition of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants.

NET INCOME, CASH FLOW AND DIVIDENDS PER SHARE



TEN YEAR REVIEW

	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
Sales and Earnings				<i>(thousands of dollars except Per Share)</i>						
Net sales.....	\$ 39,762	35,789	34,133	29,894	27,303	25,012	23,807	23,545	22,286	20,046
Depreciation.....	1,426	1,312	1,223	1,079	1,063	968	827	757	696	664
Interest expense.....	448	334	211	243	325	253	127	46	22	70
Income before taxes....	3,183	3,268	3,020	2,256	1,458	1,005	1,001	1,968	2,383	2,062
Income taxes*	1,600	1,700	1,585	850	100	15	(450)	525	1,080	915
Income after taxes.....	1,583	1,568	1,435	1,406	1,358	990	1,451	1,443	1,303	1,147
Income reinvested in the business.....	863	848	795	766	718	350	811	803	701	579
Per Share										
Income before taxes.....	\$ 3.98	4.09	3.77	2.82	1.82	1.26	1.25	2.46	2.98	2.78
Income after taxes.....	1.98	1.96	1.79	1.76	1.70	1.24	1.81	1.80	1.63	1.55
Cash flow.....	4.75	3.89	3.39	3.11	3.30	2.50	2.85	2.75	3.55	3.20
Dividends paid.....	.90	.90	.80	.80	.80	.80	.80	.80	.80	.80
Shareholders' interest.....	24.83	23.75	22.69	21.70	20.74	19.85	19.41	18.39	17.39	16.72
Number of shares outstanding (thousands)....	800	800	800	800	800	800	800	800	800	740
Capital Expenditures	\$ 6,701	4,797	2,188	1,480	1,417	1,891	3,123	2,007	1,421	650
Financial Position										
Current assets.....	\$ 11,113	10,493	9,067	8,459	8,661	8,295	7,680	6,394	5,791	5,376
Current liabilities.....	10,022	8,585	7,354	6,311	6,124	5,975	4,790	2,790	2,724	2,700
Working capital.....	1,091	1,909	1,714	2,148	2,537	2,320	2,890	3,604	3,067	2,676
Fixed assets at net book value.....	25,610	20,334	16,849	15,885	15,483	15,130	14,207	11,910	10,660	9,936
Long term loans.....	6,100	3,300	700	1,000	1,700	2,000	2,000	1,000	—	400

* See Note 4 attached to financial statements.

Year 1964 reflects recovery of the major portion of taxes paid in 1963.

BOARD OF DIRECTORS

ARTHUR F. ARMSTRONG*, *New Westminster, B.C.*

H. CLARK BENTALL,
President, Dominion Construction Company Ltd., Vancouver, B.C.

GILBERT C. CLARKE,
President and General Manager, Standard Brands Limited, Montreal, P.Q.

HARRISON F. DUNNING,
Chairman of the Board and Chief Executive Officer, Scott Paper Company, Philadelphia, Pa.

A. DONALD LAUDER,
Director, Odium Brown & T. B. Read Ltd., Vancouver, B.C.

GEORGE L. O'LEARY*, *New Westminster, B.C.*

G. WILLING PEPPER,
Director and Vice-Chairman, Scott Paper Company, Philadelphia, Pa.

RENAULT ST-LAURENT, Q.C., LL.D.,
Partner, St-Laurent, Monast, Desmeules & Walters, Barristers & Solicitors, Quebec, P.Q.

HORACE F. WINCHELL*, *Montreal, P.Q.*

**Company Officers*

OFFICERS AND EXECUTIVE MANAGEMENT

CHARLES BENTALL, *Honorary Chairman*

ARTHUR F. ARMSTRONG, *President and Chief Executive Officer*

GEORGE L. O'LEARY, *Executive Vice-President and Chief Operations Officer*

JAMES C. BOYLE, *Director of Sales, Industrial Packaged Products*

W. CARL CARLSON, *Treasurer and Assistant Secretary*

W. MICHAEL FERRIE, *Director of Corporate Personnel*

G. VERNON FORSTER, *General Manager, Western Manufacturing Division*

BERNARD A. GOULET, *Assistant Secretary and General Manager, Eastern Manufacturing Division*

JOHN J. HERB, *Assistant Secretary and Vice-President, Westminster Paper Company Limited*

DOUGLAS HOLME, *Assistant Vice-President (Director of Manufacturing)*

NORMAN A. KELLY, *President, Westminster Paper Company Limited*

WILLIAM M. MATTICE, *Director of Quality Control*

PETER J. PETERS, *Comptroller and Secretary*

H. PETER SANAGAN, *Assistant Vice-President (Director of Sales, Consumer Products)*

ROBERT T. STEWART, *Vice-President (Marketing)*

HORACE F. WINCHELL, *Vice-President (Engineering and Manufacturing Development)*

TRANSFER AGENT AND REGISTRAR

THE CANADA TRUST COMPANY, *Vancouver, Montreal and Toronto*

STOCK LISTINGS

Vancouver, Toronto and Montreal Stock Exchanges

ANNUAL MEETING

The Company's Annual Meeting of Shareholders will be held at 11:30 a.m. on April 16, 1971 at the Head Office of the Company, New Westminster, B.C.



SCOTT PAPER LIMITED / ANNUAL REPORT 1970

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To the Shareholders

First half sales and earnings gains stem from a combination of sales volume momentum generated in 1969 and in the first quarter of 1970, from the success of new product lines, from larger export and specialty paper sales, and from the continuing near-capacity use of our manufacturing facilities at both plants.

Net sales for the first half of the current year were 13.7% ahead of the corresponding period of last year. However, heavy operating cost increases limited earnings growth to 6%. The cost increases were particularly significant in the second quarter of 1970.

A new labour agreement, running to November 1, 1972, covering our production employees, has been negotiated at the Crabtree, Quebec plant. Negotiations for a new contract are now in progress at the New Westminster, B.C. manufacturing plant.

The immediate outlook is clouded by the current decline in economic activity and by rapidly increasing costs of labour, freight and raw material. Also, the company's pledge to limit price increases in accordance with the Prices and Incomes Commission guidelines adversely affects earnings growth as costs rise. In addition, the new floating rate for the Canadian dollar reduces the profitability of our papers sold in world markets. Further work stoppages at mills of our major chemical pulp suppliers could curtail our paper making operations in the second half of 1970.

Longer range, the company has the ability to continue profitable growth. Thus, we are accelerating our plans for the expansion of present product lines, for new products and for diversification in allied fields.


A. F. ARMSTRONG,
President

New Westminster, B.C.
July 27th, 1970.

SCOTT PAPER LIMITED

STATEMENT OF OPERATIONS
For the First Six Months of 1970

SCOTT PAPER LIMITED

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF WORKING CAPITAL FOR THE SIX MONTHS ENDED JUNE 27, 1970 *(with corresponding amounts for the six months ended June 28, 1969).*

	First Six Months 1970	First Six Months 1969
SOURCE:		
Income for the period	\$ 847,793	\$ 798,561
Add—		
Charges which did not involve an outlay of working capital—		
Depreciation (Note 1)	715,751	649,245
Increase in long-term bank loan	2,300,000	600,000
	<u>3,863,544</u>	<u>2,047,806</u>
DISPOSITION:		
Net additions to fixed assets	3,053,902	825,677
Dividends	360,000	360,000
Net increase (decrease) miscellaneous amounts	373	(4,903)
	<u>3,414,275</u>	<u>1,180,774</u>
Increase in working capital during the period	449,269	867,032
Add—		
Working capital at beginning of the year	1,908,880	1,713,657
Working capital at end of the period	<u>\$2,358,149</u>	<u>\$2,580,689</u>

CONSOLIDATED STATEMENT OF INCOME FOR THE FIRST SIX MONTHS OF 1970 *(with corresponding amounts for 1969)*

	First Six Months 1970	First Six Months 1969
Sales, less discounts and allowances	\$21,055,303	\$18,520,305
Expenses (Note 1):		
Cost of products sold	14,097,093	12,255,460
Marketing, general, administrative and development expenses	5,197,310	4,598,977
	<u>19,294,403</u>	<u>16,854,437</u>
Income before taxes	1,760,900	1,665,868
Provision for taxes on income	913,107	867,307
Income after taxes for the period	<u>\$ 847,793</u>	<u>\$ 798,561</u>
Income per share after taxes	<u>\$1.06</u>	<u>\$1.00</u>
Dividends paid per share	.45	.45
Number of common shares outstanding	800,000	800,000

NOTE (1) — Expenses include depreciation of \$715,751 (1969 — \$649,245).

Subject to audit and year end adjustment.